The New EU Regulation on Technology Transfers: Updated Guidance but Increased Vigilance

On 21 March 2014, the European Commission renewed the technology transfer block exemption regulation.
If the Commission tends to stick to the existing regulatory framework, most of the changes adopted may limit the scope of the regulation's safe harbor. The new regulation increases the need for companies to carefully assess their agreements and conducts under EU antitrust rules, particularly at a time where antitrust increasingly interferes with IP rights in the EU.

1. The regulatory context

Article 101 of the Treaty on the Functioning of the European Union (TFEU) prohibits anticompetitive agreements. Companies are required to determine individually whether their agreements or conduct may cause restrictions.
Technology transfer agreements concern the licensing of technology rights and are traditionally seen positively as they promote innovation.
The new regulation provides a safe harbor for all agreements that comply with its provisions. Those that do not comply must be examined under antitrust rules.
As of 1 April, - entry into force of the new regulation -, a larger number of agreements may have to be thorouglhy analyzed as the scope of the new regulation appears more limited than under the current regime. The Commission has, indeed, excluded some provisions traditionally exempted from the regulation.

2. Market share test unchanged (Article 3)

As under the previous regulation, license agreements may benefit from the safe harbor when they are concluded between competitors, provided the parties do not have a combined market share of 20% on any relevant market. Between non-competitors, the safe harbor applies when none of them have a market share that exceeds 30%. The Commission has thus rightfully abandoned the idea of extending the 20 % threshold to agreements between non-competitors when the licensee owns a substitutable technology that it only uses in-house and does not license.
Given the complexity of any market share test, companies should welcome the Guidelines' statement that Article 101 of the Treaty is unlikely to be infringed where there are four or more independently controlled technologies substitutable to the technologies controlled by the parties.

3. Non-challenge and termination clauses excluded from the safe harbor (Article 5 (1) (b))

One of the striking changes in the new regulation is the exclusion from the safe harbor of the typical clause that, in the case of non-exclusive licensing, the licensor may terminate the license when the licensee challenges the validity of the technology. Ever since the first version of the regulation in 1984, the Commission has exempted such clauses. Now, the Commission argues that invalid IP stifles competition and should be eliminated.
If the parties want to maintain such clauses, they have to weight the public interest of incentivizing the licensor to license against the public interest to eliminate an IP right granted in error.
By contrast, in the case of exclusive licensing, such a termination is less likely to have restrictive effects because the licensee may be an essential source of revenues for the licensor. The incentive for licensing could thus be undermined in such a case if the licensor could not benefit from a termination clause.

4. Exclusive grant back clauses excluded from the safe harbor (Article 5 (1) (a))

The new regulation excludes all exclusive grant back clauses (i.e. clauses that prevent the licensee from exploiting the improvements) from the safe harbor. In the prior version of the regulation, only non-severable grant backs benefited from the exemption.
For the Commission, an obligation to grant the licensor an exclusive license on the improvements of the technology or to assign such improvements is likely to reduce the licensee's incentives to innovate.
The Guidelines stipulates that the assessment of such a clause may take into account the position of the licensor, the royalties paid (or not) by the licensor, the existence of parallel networks of license agreements, etc.

5. Restriction on passive sales excluded from the safe harbor (Article 4 (2)(b))

The regulation now excludes any restriction on the passive sales into an exclusive territory or group of customers reserved for the licensor from the safe harbor.

6. Exclusion of reproduction and distribution of software copyright protected products (Recital 7)

The regulation excludes agreements whose purpose is the mere reproduction and distribution of software copyright protected products.
For the Commission, these agreements are more akin to distribution agreements than licensing technologies.

7. Technology pools

For the first time, the guidelines address technology pools.
Pooling arrangements give rise to a number of particular issues regarding the selection of the included technologies and the operation of the pool.
The way in which a technology pool is formed, organized and operated should be carefully divised in order to avoid any illicit restriction.

8. Settlements agreements

The Guidelines include helpful information on settlement agreement including reverse payments. Licensing may indeed be an efficient way to settle disputes and are generally not restrictive, unless they lead to a delayed or otherwise limited ability for the licensee to launch the product on the market concerned, in particular when both parties are competitors (risk of market sharing).
These arrangements should be reviewed with caution.

Conclusion

The few observations above confirm that it will be increasingly rare for license agreements to fit perfectly with the safe harbor.
Companies will, therefore, have to be more vigilant than ever.
That said, competition authorities should preserve the companies' incentives to innovate and limit antitrust enforcement to IP rights when absolutely necessary, for example, when IP rules alone cannot restore competition in the market.

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